



Times are tough in Michigan. Many Michigan citizens have lost, or are in danger of losing, their jobs. To make matters worse, many homeowners who purchased homes, or refinanced their mortgages, in the last few years are facing monthly mortgage payments that are skyrocketing.

This "perfect storm" of job losses, rising monthly mortgage payments, property value depreciation, and other factors has resulted in some of the highest foreclosure rates in the nation.

Working with city and state leaders and law enforcement, other state attorneys general, and lenders, I hope to facilitate prevention and alternatives to foreclosure.

This brochure will help you understand the foreclosure process, the steps you can take to try and avoid foreclosure, and how to protect yourself from those who would prey on you and your family during these stressful times. As your Attorney General, I continue to work to protect Michigan citizens and to ensure that you receive all the information necessary to help you make these extremely important financial decisions. You are not alone in the fight to save your home.

MIKE COX
ATTORNEY GENERAL

Beware of Scams!

Homeowners desperately trying to avoid foreclosure are targets of common scams:

1. A "foreclosure prevention specialist": These scams involve someone taking large fees up front to negotiate with your lender and "save your home." There is no need to pay someone to speak to your lender on your behalf – most lenders will work with you directly to help you save your home.
2. The lease/buy back: Homeowners are tricked into signing over the deed to their home based on promises that they will be able to remain in the home as a renter and buy the home back later. Generally, the terms of the lease are so difficult that homeowners are rarely, if ever, able to repurchase their homes.
3. Bait and switch: Homeowners are tricked into signing over the deed to their homes because scammers convince them they are only entering into a new mortgage agreement. **Read everything carefully, before you sign!**

More Information & Complaints

For more information on mortgages and foreclosure, helpful websites include:

- www.michigan.gov/mshda;
- www.ftc.gov/credit; or
- www.hud.gov/foreclosure/index.cfm

Foreclosure scam complaints can be directed to the Michigan Attorney General online at www.michigan.gov/ag or by calling toll free at 1-877-765-8388.

Complaints regarding a licensed mortgage broker or lender should be directed to the Office of Financial and Insurance Services online at www.michigan.gov/ofis or by calling toll free at 1-877-999-6442.

PREPARED BY THE OFFICE OF
THE ATTORNEY GENERAL



AVOIDING FORECLOSURE

A Guide for Michigan
Homeowners

MIKE COX
ATTORNEY GENERAL

Foreclosure FAQs

1. What is the difference between a lender and a servicer?

A lender provides the funds for your mortgage. A servicer collects mortgage payments, and may not be the same as your lender. To simplify, any reference to a "lender" in this brochure will refer to whoever contacts you regarding the timeliness and amount of your mortgage payments.

2. What is foreclosure?

Foreclosure is a legal process that creditors can use in order to satisfy your financial obligation to them. Foreclosure generally results from non-payment of a debt (including mortgages, second mortgages, and home equity lines of credit) but can also result due to non-payment of property taxes. For more information on the foreclosure process, please visit www.michigan.gov/mshda.

3. If I miss one mortgage payment, am I at risk of losing my home?

The short answer is yes, you are in danger of losing your home to foreclosure. Technically, after one missed payment on your mortgage, you are in breach of your agreement with your mortgage lender. Although most lenders do not initiate foreclosure proceedings after only one missed mortgage payment, **do NOT mistake this for "getting away" with missing a payment.** Late charges and other fees may apply if you miss a payment, and this adds up, which will make it harder for you to make up missed payments later. This can create a spiral and lead to foreclosure proceedings being instituted against you.

4. My lender has initiated foreclosure proceedings. What do I do?

Immediately contact an attorney and/or a U.S. Department of Housing and Urban Development (HUD) approved counseling agency by calling HUD at 1-800-569-4287 or visiting their website at www.hud.gov. Many Michigan counties have lawyer referral services that can assist you in finding an attorney. If you live in the Metro Detroit area, you can also try contacting the Legal Aid and Defender Association at 1-877-964-4700.

How to Avoid Foreclosure

1. **Carefully review all of your loan documents.** It is important to know exactly what type of mortgage you have. The most common types are: a) Hybrid Adjustable Rate Mortgages (ARMs), which have fixed payments for a few years and then move to an adjustable rate; b) ARMs, meaning the payments were never fixed; and c) Fixed Rate Mortgages, for which the payments, generally, remain the same throughout the life of the loan. If you have an ARM and you would like to stay in your home for several years, it may be worth refinancing to a Fixed Rate Mortgage, if possible.
2. **Contact your lender.** If you are having trouble making your payments, contact your lender **immediately**. Most lenders are willing to work with you, if you show a good faith effort to make your payments and avoid foreclosure. **Remember, it is important to contact your lender early on** – the longer you wait, the harder it will be to help you.
3. **Be organized!** Open and respond to all notices that you receive in the mail, and keep copies of all correspondence. Any written correspondence should be sent by certified mail, return receipt requested. Be sure to keep records of the last 12 payments made to your account, including amounts and date of payments. Evaluate your current budget and be sure to keep your pay stubs and W-2s, so you can work with your lender's "loss mitigation specialists" (people who work with homeowners to try and avoid foreclosure).

Alternatives to Foreclosure

Your lender may be willing to work out an alternative to foreclosure that may help you save your home, or at least to prevent a foreclosure from ruining your credit. Some alternatives include:

1. **Repayment Plan:** Your lender may give you a fixed amount of time to repay the amount you are behind, plus any late fees, by adding a portion to your regular monthly payment. This is a good option if you only missed a few payments.
2. **Forbearance:** Your lender may agree to suspend your payments for a period of time. At the end of this time, you will resume your regular monthly payments, and you may be required to either make one lump sum payment or additional partial payments. This may be a good option if you have a temporary reduction in income.
3. **Loan Modification:** Your lender may agree to reduce your interest rate, extend the term of the loan, or add missed payments to the loan balance.
4. **Selling Your Home:** Depending on the strength of the housing market in your area, selling may provide funds needed to pay the mortgage debt in full. In a "short sale," the lender allows you to sell and agrees to forgive any shortfall between the sale price and the mortgage balance. You still may face a tax liability on the amount of debt forgiven.
5. **Deed in Lieu of Foreclosure:** You voluntarily transfer title to the lender in exchange for cancellation of the remainder of your debt, but you will lose any equity in the home and may have to pay taxes on the debt forgiven. A sale or a deed in lieu of foreclosure may be a better alternative than a foreclosure adversely affecting your credit.